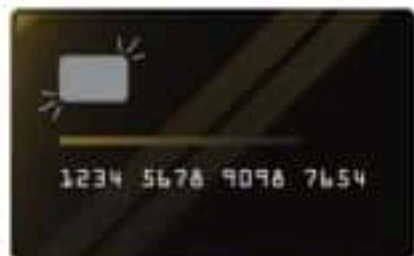


# Can UPI Win The Credit Card Game?



Going by NPCI's past experience, it needs a new strategy for adoption of UPI-linked credit cards



## UPI ON A HIGH

Over 250 mn users

Over 50 mn merchants

FY2021: UPI processed 22.28 bn transactions, amounting to ₹41.03 trillion

FY2022: UPI processed more than 46 bn transactions amounting to over ₹84.17 trillion

Total value of transactions in July 2022: ₹10.62 trillion

Total no. of transactions in July 2022: 6.28 billion

YoY volume of transactions nearly doubled while value of transactions was up 75%



## LINKING UPI TO CREDIT CARDS: WILL IT TAKE OFF?

In the beginning, UPI will be linked only to RuPay credit cards

While there are 75 mn credit cards in India, RuPay has only 2 mn

Mastercard and Visa are not part of the programme yet

Merchant discount rate (MDR), which could be as high as 2%, could prove to be a damper

lenders to provide the facility, while informing merchants and customers about the applicable interchange. Obviously, this created a lot of disenchantment among merchants, and finally, a lot of banks switched off the OD-on-UPI feature.

But the NPCI doesn't seem to have changed its approach. According to bankers, it has mandated that banks should link UPI to credit cards. While the banks are desperate to make money from the UPI platform, they cannot afford to make merchants angry.

"When merchants don't want to pay MDR, there is no reason for the acquiring bank to

offer such features to them," says Nitesh Singhal, a payments professional and the former head of UPI business at Axis Bank.

Singhal adds that the NPCI and banks should ensure a different outcome for merchants for the 'new version' of credit-on-UPI to be successful. "Banks will have to do the heavy lifting and work with their merchants and aggregator partners to achieve a wide acceptance network for RuPay credit cards on UPI," he points out.

So, why would any customer or small merchant opt for the credit card on UPI when the past experience suggests otherwise?

To begin with, both OD and credit-card platforms have their own advantages and disadvantages. For OD, the inter-

est is charged from the first day for customers who opt for it whereas on credit cards it kicks in only after 30-45 days. For instance, if a customer avails an OD of ₹50,000 and withdraws ₹10,000, the interest for the amount withdrawn kicks in from that day and is settled at the end of the month. The only advantage in this case is that the customer needs to pay interest only for the amount withdrawn. But then, that facility is available on credit cards, too. For customers who settle the outstanding amount at the end of the billing cycle, credit cards offer better terms. However, OD interest rates are almost one-third of that of credit cards.

### RIDING ON UPI'S POPULARITY

When the merchant commission dropped to zero on UPI in 2020, they started using it for business payments. The NPCI is hoping that it will be different for a credit product through the UPI platform this time.

When the programme was first launched in 2018, UPI was nowhere as popular as it is today. The NPCI's hope is that the popularity and customer habit will force merchants to continue providing the UPI facility. Hence, it is asking banks to compulsorily add this feature as a default on UPI. But a pushback from merchants will force them to provide UPI and turn off the credit-card feature to avoid MDR. It is also possible that the interchange will be applicable only for transactions above a certain value, say ₹2,000 or ₹5,000, thereby attracting more merchants to accept RuPay credit card-linked UPI transactions.

Discussions are also underway between banks and the NPCI about exempting smaller merchants, say, with annual turnovers of up to ₹20 lakh, from paying the MDR.

Linkage of RuPay credit cards to UPI can be operational in a couple of months. We are talking to BoB Cards, SBI Cards, Axis Bank and Union Bank of India. We should be in a position to submit our proposal to RBI in 10 days and once we get the approval, we should be able to start in two months. NPCI might have to take care of the smaller merchants and protect them from the MDR while existing credit card servicing merchants can continue to pay"

### DILIP ASBE

MD and CEO, NPCI, at a Fireside Chat during the Bank of Baroda Annual Banking Conclave, on July 22



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### NITESH SINGHAL

former head of UPI business, Axis Bank

### BOTTOM LINE

There are more than 250 million UPI users and 50 million UPI merchants in India. Under UPI, there are two forms of payments — a peer-to-peer (P2P) or personal transaction and a peer-to-merchant (P2M) or business transfer. The payments one makes for milk or newspapers come under P2P. Credit-card payments through UPI will only work for P2M payments.

It is likely that when the customer scans the QR code for a P2P transfer, the only payment option available will be the linked savings account. However, while scanning the QR code for a P2M transaction, the platform will likely give the options of a savings account as well as a credit card.

Another challenge to the growth of the new credit platform is the fact that Mastercard and Visa are not part of the programme yet. Moreover, while the number of total credit cards in India is 75 million, the share of RuPay is minuscule at fewer than 2 million cards.

If fast and easy-to-use QR codes were the only reason for UPI becoming a success among merchants, why did card-based Bharat QR not take off?

While one may get excited about the UPI-credit card linkage, the failure in getting merchants to adopt the previous programme should temper the expectations.

"As of now, the NPCI does not seem to have a different plan of action to make the credit programme succeed this time, unless of course, they are holding their cards close to their chest," says the digital-banking head quoted earlier.

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